

AMERICAN PREPARATORY ACADEMY OF DRAPER

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTS
AND
FINANCIAL STATEMENTS**

June 30, 2005

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN PREPARATORY ACADEMY OF DRAPER

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Registered with the Public Company
Accounting Oversight Board



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTS

To the Board of Directors
American Preparatory Academy of Draper
Draper, Utah

We have audited the accompanying statement of financial position of American Preparatory Academy of Draper ("Academy") as of June 30, 2005 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Preparatory Academy of Draper as of June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005 on our consideration of American Preparatory Academy of Draper's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
August 25, 2005

AMERICAN PREPARATORY ACADEMY OF DRAPER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets

Cash	\$ 598,780
Restricted cash	49,868
Accounts receivable	45,316
Prepaid expenses	34,861
Investments	25,000

Total Current Assets	<u>753,825</u>
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Deposits	19,983
Capital assets, (net of accumulated depreciation of 26,041)	100,292

Total Assets	<u>\$ 874,100</u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable - trade	\$ 17,653
Accrued payroll and merit pay accrual	239,511
Total Liabilities	<u>257,164</u>

Net Assets

Unrestricted:	
Designated	100,000
Undesignated	467,068
Temporarily Restricted	49,868

Total Net Assets	<u>616,936</u>
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Total Liabilities and Net Assets	<u>\$ 874,100</u>
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The accompanying notes are an integral part of these financial statements.

AMERICAN PREPARATORY ACADEMY OF DRAPER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Revenue and Support	
Federal	\$ 238,544
State	2,322,312
Donations	18,203
Interest	3,847
Special Events, net	9,566
Total unrestricted revenues and support	<u>2,592,472</u>
Expenses	
Program Services - Charter School	
Salaries	1,316,760
Benefits	171,165
Professional and technical services	21,086
Purchased property services	278,812
Other purchased services	98,739
Supplies and materials	216,943
Property	102,615
Total program services expenses	<u>2,206,120</u>
Administrative Expenses	
Salaries	150,848
Benefits	7,151
Professional and technical services	159
Purchased property services	5,691
Other purchased services	2,103
Supplies and materials	14,101
Total administrative expenses	<u>180,053</u>
Total Expenses	<u>2,386,173</u>
Unrealized loss on investments	<u>488</u>
Total increase in unrestricted net assets	<u>205,811</u>
Changes in temporarily restricted net assets	
State grants to be used for retirement funding	<u>21,974</u>
Total increase in temporarily restricted net assets	<u>21,974</u>
Increase in net assets	227,785
Net assets at beginning of year, as restated (Note 4)	<u>389,151</u>
Net assets at end of year	<u>\$ 616,936</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN PREPARATORY ACADEMY OF DRAPER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

Cash Flows From Operating Activities	
Net change in net assets	\$ 227,785
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	21,587
Unrealized loss on investments	488
Changes in assets and liabilities:	
Grant receivable	4,684
Prepaid expenses	(30,874)
Accounts payable	(2,348)
Accrued payroll	(20,849)
	<hr/>
Net Cash From Operating Activities	200,473
	<hr/>
Cash Flows From Investing Activities	
Purchase of property and equipment	(71,809)
	<hr/>
Net Cash From Investing Activities	(71,809)
	<hr/>
Cash Flows From Financing Activities	<hr/>
	-
	<hr/>
Net Increase in Cash and Cash Equivalents	128,664
Cash and Cash Equivalents at Beginning of Period	519,984
	<hr/>
Cash and Cash Equivalents at End of Period	\$ 648,648
	<hr/>
Cash Paid for Interest	<hr/>
	\$ -

The accompanying notes are an integral part of these financial statements.

AMERICAN PREPARATORY ACADEMY OF DRAPER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – American Preparatory Academy of Draper (the “Academy”) was incorporated in May, 2003 and began operations July 1, 2003 under the laws of the State of Utah and operates as a non-profit organization under section 501(c)(3) of the Internal Revenue Code. The Academy is a charter school located in Draper, Utah. The school currently has students enrolled in classes from kindergarten through ninth grade. The stated mission of the charter school is “to provide an orderly, safe and nurturing learning environment wherein content-rich, efficient curriculum and research-based instructional methodologies are utilized to ensure that every student achieves academic success and develops good character based on concrete measurements.”

Financial Statement Presentation – The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Basis of Accounting — The accompanying financial statements have been prepared on the full accrual basis of accounting. Revenues are recognized as discussed below. Expenses generally are recorded when a liability is incurred. During the year ended June 30, 2004, the Academy used the modified accrual basis of accounting. The net effect of the change has been calculated and is further discussed in Note 4 below.

Revenue Recognition

State Funding – The Academy receives funding from the State of Utah as administered by the Utah State Office of Education based on the number of students enrolled in its school. The State provides unrestricted funding for normal school operations and restricted funds for specific school-related activities or functions. Unrestricted funding is recognized as revenue when received. Restricted funding is recognized as revenue when qualifying expenses are incurred. Funding for which qualifying expenses have not been incurred is recorded as temporarily restricted net assets in the Academy’s Statement of Financial Position.

Federal Grants – The Academy also received federal charter school grants, which are paid through the Utah State Office of Education. Funds are generally received on a reimbursement basis and, accordingly, revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met.

Contributions and Donated Services – Unrestricted contributions are recognized as revenue when received. Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Academy would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year ended June 30, 2005 because items did not meet the definition above. Restricted contributions received are recorded as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are recognized as revenue when the terms of the restrictions are met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Due to their nature, actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents are defined as demand deposits, savings, money market accounts, and certificates of deposit with original maturities of three months or less. Restricted cash represents federal grant money that is to be used for specific activities as defined in the grant agreement.

Concentration of Credit Risk — The Academy maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. The Academy's carrying amount of bank deposits at June 30, 2005 is \$648,648 and the bank balance is \$685,929, \$119,906 of which is covered by federal depository insurance. No deposits are collateralized, nor is it required by state statute.

During the year ended June 30, 2005, the Academy received a substantial amount of its support, approximately 90% and 9%, from the Utah State Office of Education and Federal Public Charter School grants, respectively. The loss of support from these major sources of funds could have an adverse effect on the Academy's programs and activities.

Allocated Expenses — Expenses by function have been allocated among program and supporting service classifications on the basis of time records and on estimates made by the Academy's management.

Investments — The Academy has adopted Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*." SFAS No. 124 applies to equity securities with readily determinable fair values, and requires that all investments be reported at fair value. Additionally, gains or losses are reflected as increases or decreases in net assets through support and revenue, including unrealized gains or losses.

Accounts Receivable and Allowance for Doubtful Accounts – As of June 30, 2005, the Academy had accounts receivable of \$45,316 due from the State for federal charter school grants.

The Academy makes judgments about its ability to collect outstanding accounts receivable. If necessary, the Academy establishes an allowance if collection becomes doubtful, based primarily on the aging of the specific invoice. To date, the Academy has not recorded any allowance against outstanding accounts receivable.

Fair Value of Financial Instruments – The Academy has a number of financial instruments. The Academy estimates that the fair value of all financial instruments at June 30, 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

Capital Assets – Capital assets include depreciable assets and include equipment and furniture. The Academy defines capital assets as assets with an initial, individual cost of more than \$2,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance or repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Equipment and furniture of the Academy are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office/Computer equipment	3 to 5
Furniture and Fixtures	7

During the year ended June 30, 2005, the academy recognized \$21,587 of depreciation expense.

Advertising – The Academy follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended June 30, 2005 was \$4,427.

Income Taxes – The Academy qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Academy qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation under Section 509(a)(2). Income determined to be unrelated business income would be taxable.

NOTE 2 – FAIR VALUE OF INVESTMENTS

During the year ended June 30, 2004, the Academy received a donation of stock from a private donor, which is held for trading purposes. The stock and the income there from, are to be used to benefit the Academy. The investment is recorded at fair value. The estimated fair value amount has been determined by the Academy using market valuation provided by the Academy's broker.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Equipment	\$ 29,491	\$ 69,435	\$ -	\$ 98,926
Furniture & Fixtures	25,033	2,374	-	27,407
Total capital assets:	54,524	71,809	-	126,333
Accumulated depreciation:				
Equipment	(2,303)	(17,983)	-	(20,286)
Furniture & Fixtures	(2,151)	(3,604)	-	(5,755)
Total accumulated depreciation	(4,454)	(21,587)	-	(26,041)
Net capital assets	\$ 50,070	\$ 50,222	\$ -	\$ 100,292

NOTE 4 – NET ASSETS

Prior Period Adjustment

For the year ended June 30, 2004, the Academy reported its net assets on the modified accrual basis. Under the modified accrual basis, capital assets are expensed as incurred. For the year ended June 30,

2005 the Academy used the full accrual method of accounting and plans on continuing to use that method. Net assets under the modified accrual basis as of June 30, 2004 were \$339,081, and have been restated to reflect the full accrual method of \$389,151. This change has no effect on the 2005 financial statements. Capital assets, net of depreciation as of June 30, 2004 was \$50,070.

Net Assets

Net assets at June 30, 2005 included unrestricted net assets of \$567,068 and temporarily restricted net assets of \$49,868. The components of temporarily restricted net assets are as follows:

	June 30, 2005
Restricted for retirement of employees	<u>\$ 49,868</u>
Total restricted net assets	<u><u>\$ 49,868</u></u>

During the year ended June 30, 2004, the Board approved that \$100,000 of the unrestricted net assets be designated as an operating reserve for the Academy.

NOTE 5 – LINE OF CREDIT

During February 2004, the Academy entered into a line of credit for \$41,918. Interest on the line accrues at 3.34%. Subsequent to year end, the original agreement on the line of credit was renewed to expire in February 2007. No draws had been made on the line as of June 30, 2005.

NOTE 6 – MERIT PAY

All full-time staff members of the Academy are eligible to receive merit pay. Staff members are eligible for merit pay based upon the performance of their work during the prior school year. The merit pay will be calculated and paid out in October of each year. Factors used in determining the amount of merit pay per employee are the following: teacher evaluations, student achievement scores, and parent satisfaction survey results. Any staff member who does not return to their position or another full-time position at the Academy the following school year will not be eligible to receive merit pay. Merit pay will be allocated 65% to full-time teachers and 35% to full-time instructors and administrative staff. The merit pay schedule per employee will be determined by the school director, business administrator and the governing board. Merit pay for the year ended June 30, 2005 was accrued for \$38,808.

NOTE 7 – PROFESSIONAL EMPLOYER ORGANIZATION

In August 2003, the Academy entered into an agreement with a professional employer organization to provide off-site human resource services. All employees of the Academy are employed by the professional employer organization. The professional employer organization administers payroll, employee benefits and other related expenses and assists in personnel and related compliance requirements. The agreement requires a deposit to be held should the Academy default on any payments. The line of credit as explained in Note 5 was entered into to satisfy the deposit requirements for this agreement. Fees for services under this agreement were \$35,434 during the year ended June 30, 2005.

NOTE 8 – OPERATING LEASE

During 2003, the Academy entered into a lease for office and classroom space. The original lease was for twenty years in duration for \$15,650 a month to \$18,650 per month. The lease was amended in June 2004 to require monthly lease payments of \$21,720 to \$26,492 over the life of the lease. The monthly rent increases every five years. The Academy is also required to pay a proportionate share of property tax,

insurance expenses and common area expenses as additional monthly rent of \$4,000 per month. Rent expense for the year ended June 30, 2005 was \$284,592. This lease expires in 2023.

Future rental commitments are as follows:

Year Ended June 30,	
2006	\$ 308,632
2007	308,632
2008	323,499
2009	326,472
2010	326,472
Thereafter	<u>4,264,551</u>
Total	<u>\$ 5,858,258</u>

NOTE 9 – RETIREMENT PLANS

In July 2004, the Academy established a defined contribution, tax-deferred retirement plan under Section 403(b) of the Internal Revenue Code. All staff members 18 years of age or older that have been employed for 30 days are eligible to participate in the Plan. Under the plan, the Academy is able to contribute up to 7% of the employee's gross wages. The contribution to the 403(b) plan for the year ended June 30, 2005, was \$88,016.

In July 2004, the Academy entered into a participation agreement with its professional employer organization to offer a defined contribution, tax deferred retirement plan under Section 401(k) of the Internal Revenue Code. The Plan is administered by the professional employer organization. All staff members 18 years of age or older that have been employed for 30 days are eligible to participate in the Plan. A matching contribution of 25% of each participant's elective deferral up to 4% of eligible compensation will be made by the professional employer organization. The cost of the matching contribution will be passed on to and paid by the Academy. The employer contributions vest as follows: 40% after one year of service, 60% after two years of service, and 100% after three years of service. During the year ended June 30, 2005 the Academy recognized \$90,300 in retirement expense contribution.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
American Preparatory Academy of Draper
Draper, Utah

We have audited the accompanying financial statements of American Preparatory Academy of Draper ("the Academy") for the year ended June 30, 2005, and have issued our report thereon dated August 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of American Preparatory Academy of Draper in a separate letter dated August 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and the Utah State Office of Education and is not intended to be and should not be used by anyone other than these specified parties.

Salt Lake City, Utah
August 25, 2005

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
American Preparatory Academy of Draper
Draper, Utah

We have audited the financial statements of American Preparatory Academy of Draper, a nonprofit corporation, for the year ended June 30, 2005, and have issued our report thereon dated August 25, 2005. As part of our audit, we have audited American Preparatory Academy of Draper's compliance with the requirements governing types of services allowed or unallowed; eligibility; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. American Preparatory Academy of Draper received the following major State assistance program from the State of Utah:

Minimum School Program (State Office of Education)

The management of American Preparatory Academy of Draper is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about American Preparatory Academy of Draper's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, American Preparatory Academy of Draper complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2005.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
August 25, 2005